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The Standard Deduction in the Food Stamp Benefit Formula

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Issue: The standard deduction is an important but inconspicuous component of the Food Stamp Program's benefit formula.¹ This deduction is a fixed dollar amount subtracted from household cash income before a family's benefit allotment is determined. The deduction is designed to compensate for certain essential expenses that may reduce the income available for food purchases. The standard deduction greatly increases the average food stamp benefit amount.

For almost two decades, lawmakers left the standard deduction unchanged as a fixed dollar amount per household, except for inflation adjustments in some years (these cost-of-living adjustments were eliminated in 1996). In 2001 and 2002, however, the standard deduction played an important role in proposed legislative changes during the reauthorization of the Food Stamp Program. This issue brief explains the role of the standard deduction in the food stamp benefit formula and analyzes options for changing the level of the standard deduction.

Background: Modifying the food stamp benefit formula is a major policy decision: \$15.5 billion in food stamp benefits were distributed according to this formula in 2001, providing food assistance to more than 17 million low-income Americans. The U.S. Congress signals the importance of the food stamp benefit formula by deciding every parameter. By comparison, States are granted more leeway to determine policies for the cash assistance program for low-income families with children, Temporary Assistance for Needy Families (TANF).

To be eligible for food stamp benefits, a household must have low income. The "net income test," which households must pass to be eligible, requires that monthly cash income after certain deductions be less than or equal to the

Federal poverty guidelines. Other eligibility "tests" place limits on gross income (before deductions), household assets (such as bank accounts and automobiles beyond a certain value), and participation by certain types of people (such as full-time college students and many noncitizen immigrants). The full set of eligibility conditions is explained on the Food and Nutrition Service (FNS) website (Food and Nutrition Service, 2001).

An eligible household's food stamp benefit allotment depends on its monthly net income, which equals its monthly gross cash income minus deductions. Monthly gross cash income includes most resources coming into the household, whether from government programs, labor market earnings, or other sources. The benefit allotment equals a maximum benefit amount, which varies by household size, minus 30 percent of monthly net income. For one-person and two-person families, there is also a minimum benefit of \$10 per month per family.

Six types of deductions from gross cash income are used in computing monthly net income. Two of these deductions have by far the biggest impact on the average benefit families receive: (1) the excess shelter expense deduction (monthly shelter costs that exceed 50 percent of the monthly income remaining after all other deductions are subtracted from gross income, up to a fixed cap); and (2) the standard deduction (\$134 per household, in the contiguous United States). For most households, an additional dollar of standard deduction raises the benefit level by 30 to 45 cents.²

¹The "benefit formula" is the set of rules that determine each eligible person's or family's benefit level.

²The interactions among the deductions are complex. If a \$1 increase in the standard deduction reduced net income by \$1, then the change would raise food stamp benefits by 30 cents. However, for households that receive the shelter deduction (but less than the shelter deduction cap), the amount of the shelter deduction will increase when the standard deduction increases. In that case, a \$1 increase in the standard deduction would raise food stamp benefits by 45 cents. If the household receives either the minimum or the maximum benefit, the \$1 increase in the standard deduction would have no effect on the food stamp benefits received.

The only change to the standard deduction since 1982 has been inflation adjustments that Congress allowed in some years but not others. While these annual cost-of-living adjustments have frequently been small, their absence can cause a substantial decline in the real value of the deduction over several years. In 2001 and 2002, Congress considered more substantial increases in the standard deduction for larger families.

Findings:

1 The standard deduction has a major effect on the average food stamp benefit amount.

A recent ERS report, *Understanding the Food Stamp Benefit Formula*, explains one way to calculate how much the standard deduction and other elements of the benefit formula contribute to the average benefit amount (Wilde, 2001). Using updated data for fiscal year 2000, results are shown in the first row of table 1. This breakdown indicates that the standard deduction has a large effect on the average food stamp benefit amount.

The mean per person monthly benefit for all food stamp participants may be broken down as the sum of the following six elements:

- (1) If all eligible households had no cash income, mean per person benefits would have equaled the mean per person maximum benefit—\$118.21.³
- (2) If all cash income had counted for purposes of benefit determination, the mean per person monthly benefit would have fallen by \$99.13.
- (3) The standard deduction offset some of the cash income and raised benefits by \$25.32.
- (4) The effect of other deductions—all deductions other than the standard deduction—was \$27.67.
- (5) Some households that receive the maximum food stamp benefit cannot make effective use of all of their deductions, because their net income reaches zero. Any further deductions, for which they might otherwise have been eligible, have no effect on their benefit level. This “maximum benefit effect” equaled -\$7.07.

³For example, for two-person households in the contiguous 48 States, the per person maximum benefit was \$117 (\$234 per household). For three-person households, the per person maximum benefit was \$111.67 (\$335 per household). The mean value over all households, weighted using the household sampling weights provided with the Quality Control data, was \$118.21.

(6) The mean per person minimum benefit effect was \$3.01.⁴ This effect shows the extent to which the minimum benefit rule raised the mean per person benefit level. Clearly, from this breakdown, the standard deduction effect of \$25.32 accounts for a large part of the average benefit of \$68.01.

This decomposition of the average benefit amount is just one way to quantify the impact of the standard deduction. In measuring the “standard deduction effect,” this approach holds constant other deductions that would actually change if the standard deduction changed. For example, the shelter deduction is based in part on an assessment of income after the standard deduction, but the earlier computation ignores changes to the shelter deduction that would accompany a change in the standard deduction. A computer-intensive research method known as microsimulation can be used to carefully assess all of these interactions between deductions, but it would not change the principal conclusion here: The standard deduction is responsible for a large contribution to the average food stamp benefit level.

Thus, alterations to the standard deduction can have a major effect on program benefits and costs. For example, some recent proposals would effectively index the standard deduction for inflation, by linking the standard deduction to the Federal Government’s poverty guideline, which is indexed for cost of living. Other proposals would continue to fix the standard deduction in nominal dollar terms, as has been the case since 1996, which would allow the real value of the standard deduction and hence the average food stamp benefit to decline over time.

2 Under current rules, the standard deduction raises per person food stamp benefits much more for small households than for large households.

The remaining rows of table 1 contain similar calculations for households with one to five members (only 4 percent of all food stamp households have more than five members). Because the standard deduction under current rules is a fixed amount per household, its effect on per person benefits falls sharply with household size. This deduction raises per person benefits by \$40.41 in one-person households and by \$8.09 in five-person households.

⁴While the minimum benefit applied to only 11 percent of all households in the sample (17 percent of all one- and two-person households), it nevertheless had a substantial effect *on* those households to which it did apply. For one- and two-person households with net incomes that approach the eligibility cutoff, the maximum benefit minus 0.3 times net income equals a negative value. The minimum benefit effect measures the difference between this negative value and the minimum benefit of \$10.

Table 1—Food stamp benefits
The standard deduction greatly raises average benefits, especially for small households

	Benefit formula component						Food stamp benefit
	Maximum benefit	Income effect	Standard deduction effect	Other deductions effect	Maximum benefit effect	Minimum benefit effect	
<i>Dollars (mean per person)</i>							
All households	118.21	-99.13	25.32	27.67	-7.07	3.01	68.01
By household size:							
1 person	127.75	-136.73	40.41	39.74	-12.25	6.34	65.26
2 people	117.56	-85.79	20.19	23.63	-5.10	1.52	72.01
3 people	112.17	-67.37	13.46	19.08	-3.23	0	74.11
4 people	107.13	-62.68	10.10	15.61	-1.86	0	68.30
5 people	101.71	-59.49	8.09	20.86	-1.11	0	70.06

Source: Author's calculations from 2000 Quality Control data.

Note: Entries are rounded to two significant digits after the decimal.

By comparison, the impact of some other elements of the benefit formula is comparatively similar across household sizes. For example, it is well known that the maximum benefit in the food stamp benefit formula is scaled in favor of smaller households, to account for “economies of scale” in purchasing and preparing food in larger households. The first column of table 1 shows that this scale adjustment for household size does not cause as much difference in the per person benefits received as the standard deduction effect does.

Larger households also tend to be poorer in terms of cash income per person. The main reason larger households do not have a much lower per person benefit overall, in spite of the standard deduction effect, is because of the income effect. This effect lowers benefits more for small households than it does for large households, offsetting much of the variation across household size that can be attributed to the standard deduction effect. An increase in the standard deduction for larger households, while holding constant the deduction for smaller households, has the effect of raising benefits for those households that tend to have lower per capita income.

In addition to setting the level of the standard deduction, and deciding whether it should be indexed for inflation, policymakers must decide how the standard deduction affects households of different sizes. There is a range of options for scaling the standard deduction by household size. At one end, the current rules stipulate a fixed-dollar deduction per household. At the other end, a fixed-dollar deduction per person would favor larger households more than the current approach does. An intermediate proposal is to express the standard deduction as a fixed percentage

of the poverty guidelines, which is itself scaled to account for the different costs faced by households of different sizes.

3

An increase in the standard deduction raises benefits for households with positive monthly net income, such as households with earnings. The increase does not raise benefits for households that have no net income.

An increase in the standard deduction generally raises the benefit level for households with positive net cash income. For most households with positive net cash income, a \$1 increase in the standard deduction would raise food stamp benefits by 30 to 45 cents. By comparison, for participating households with less than \$134 in monthly gross cash income, the current standard deduction is sufficient to reduce their net income to zero, so they receive the maximum benefit amount. If the standard deduction increased, these households would still have a net income of zero, so they would still receive the same maximum benefit amount. Thus, an increase in the standard deduction provides no additional food stamps to households that have no net income.

Recent legislative proposals would increase the standard deduction for households with four or more members—households that usually have positive net income. In fiscal year 2000, about 77 percent of households with three members or fewer had positive net income, while 89 percent of larger households had positive net income. For these 89 percent of larger households, an increase in the standard deduction would generally raise the food stamp benefit. For the remaining 11 percent of larger households that have no net income, an increase in the standard deduction would offer no change in their food stamp bene-

fit. Most low-income working households, for example, would see their benefit level rise from an increase in the standard deduction, while the very poorest food stamp households would not see any change in their benefit level.

Conclusions: Recent legislation has proposed to raise the standard deduction for larger food stamp households. A higher standard deduction for larger households would partially offset a feature of the current benefit formula, in which small households receive a higher per person benefit from the standard deduction than large households do. A policy change of this nature would raise benefits for many larger households, particularly working households with earnings. For a comparatively small group of households with no net income (about 11 percent of all households with four or more members), an increase in the standard deduction would not raise the average benefit level.

For households with positive net income, such as from earnings in the labor market, an increase in the standard deduction would raise the average benefit level.

Information Sources:

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